

TOWNSHIP OF HEATH  
Allegan County, Michigan  
03-1090  
FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

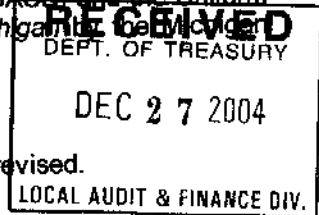
Year Ended June 30, 2004

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Heath	<b>County</b> Allegan
<b>Audit Date</b> June 30, 2004	<b>Opinion Date</b> November 27, 2004	<b>Date Accountant Report Submitted to State:</b> November 27, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan*, as promulgated by the Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

**Certified Public Accountant (Firm Name)**  
Campbell, Kusterer & Co., P.C.

**Street Address**  
512 N. Lincoln, Suite 100, P.O. Box 686

**City**  
Bay City

**State**  
MI

**Zip**  
48707

**Accountant Signature**

Campbell, Kusterer & Co., P.C.

TOWNSHIP OF HEATH  
Allegan County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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## **INDEPENDENT AUDITOR'S REPORT**

November 27, 2004

To the Township Board  
Township of Heath  
Allegan County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Heath, Allegan County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Heath's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Heath, Allegan County, Michigan as of June 30, 2004, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF HEATH  
Allegan County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2004

The Management's Discussion and Analysis report of the Township of Heath covers the Township's financial performance during the year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net Assets at June 30, 2004, totaled approximately \$1,821,978.00 for governmental activities. Of this total, approximately \$1,071,705.00 represents capital assets net of depreciation.

Overall, revenues were \$864,064.00

The tax base increased by .04%.

We did not incur any new debt during the year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund and the Cemetery Fund.

TOWNSHIP OF HEATH  
Allegan County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2004

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Cemetery Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

For the fiscal year ended June 30, 2004, net assets increased by \$199,888.30 to \$1,821,978.35. Total expenses of the governmental activities were \$664,176.05.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$169,155.52 and fire protection, which incurred expenses of \$165,897.77 in 2004.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township of Heath had no capital asset activity during the fiscal year ended June 30, 2004.

The Township of Heath had no long-term debt activity during the fiscal year ended June 30, 2004.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township's plans for the future include expanding our recreation programs and soccer fields. Plans are in the discussion stage.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Township Clerk, Supervisor, Treasurer by calling 269-751-2403 during the hours of 8:00 AM to 5:00 PM.

TOWNSHIP OF HEATH  
Allegan County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
June 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	684 850 92
Accounts receivable	36 115 00
Taxes receivable	<u>29 307 43</u>
Total Current Assets	<u>750 273 35</u>
NONCURRENT ASSETS:	
Capital Assets	1 211 174 00
Less: Accumulated Depreciation	<u>(139 469 00)</u>
Total Noncurrent Assets	<u>1 071 705 00</u>
TOTAL ASSETS	<u><u>1 821 978 35</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1 071 705 00
Reserved	35 185 40
Unrestricted	<u>715 087 95</u>
Total Net Assets	<u>1 821 978 35</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 821 978 35</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HEATH  
Allegan County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

	<u>Program Revenue</u>	<u>Governmental Activities</u>
		Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Charges for Services</u>
Governmental Activities:		
Legislative	93 851 49	-
General government	143 334 55	81 704 27
Public safety	182 317 83	-
Public works	169 155 52	1 200 13
Culture and recreation	69 518 45	102 562 44
Other	5 998 21	-
	<u>664 176 05</u>	<u>185 466 84</u>
Total Governmental Activities		<u>(478 709 21)</u>
General Revenues:		
Property taxes		436 239 22
Other taxes		8 982 60
State revenue sharing		222 226 15
Interest		4 224 80
Miscellaneous		6 924 74
Total General Revenues		<u>678 597 51</u>
Change in net assets		199 888 30
Net assets, beginning of year		<u>1 622 090 05</u>
Net Assets, End of Year		<u>1 821 978 35</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF HEATH  
Allegan County, Michigan

BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2004

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	649 665 52	35 185 40	684 850 92
Accounts receivable	36 115 00	-	36 115 00
Taxes receivable	29 307 43	-	29 307 43
Total Assets	<u>715 087 95</u>	<u>35 185 40</u>	<u>750 273 35</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	-	-	-
Total liabilities	-	-	-
Fund equity:			
Fund balances:			
Reserved	-	35 185 40	35 185 40
Unreserved:			
Undesignated	715 087 95	-	715 087 95
Total fund equity	<u>715 087 95</u>	<u>35 185 40</u>	<u>750 273 35</u>
Total Liabilities and Fund Equity	<u>715 087 95</u>	<u>35 185 40</u>	<u>750 273 35</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HEATH  
Allegan County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	750 273 35
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 211 174 00
Accumulated depreciation	<u>(139 469 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 821 978 35</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HEATH  
Allegan County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended June 30, 2004

	General	Other Funds	Total
Revenues:			
Property taxes	436 239 22	-	436 239 22
Other taxes	8 982 60	-	8 982 60
Licenses and permits	39 297 50	-	39 297 50
State revenue sharing	222 226 15	-	222 226 15
Charges for services:			
Planning	4 800 00	-	4 800 00
Property tax administration	33 406 77	-	33 406 77
Cemetery	4 000 00	200 00	4 200 00
Recreation	102 562 44	-	102 562 44
Interest	3 816 63	408 17	4 224 80
Special assessments	1 200 13	-	1 200 13
Miscellaneous	6 924 74	-	6 924 74
Total revenues	<u>863 456 18</u>	<u>608 17</u>	<u>864 064 35</u>
Expenditures:			
Legislative:			
Township Board	93 851 49	-	93 851 49
General government:			
Supervisor	13 415 05	-	13 415 05
Elections	105 53	-	105 53
Assessor	7 240 84	-	7 240 84
Clerk	13 728 78	-	13 728 78
Board of Review	900 00	-	900 00
Treasurer	12 942 48	-	12 942 48
Building and grounds	64 991 85	-	64 991 85
Cemetery	16 701 02	-	16 701 02
Public safety:			
Fire protection	165 897 77	-	165 897 77
Planning Commission	8 552 50	-	8 552 50
Board of Appeals	650 00	-	650 00
Zoning Administrator	7 217 56	-	7 217 56
Public works:			
Highways and streets	169 155 52	-	169 155 52
Culture and recreation:			
Parks and recreation	69 518 45	-	69 518 45
Other:			
Payroll taxes	5 998 21	-	5 998 21
Total expenditures	<u>650 867 05</u>	<u>-</u>	<u>650 867 05</u>
Excess of revenues over expenditures	212 589 13	608 17	213 197 30
Fund balance, July 1	<u>502 498 82</u>	<u>34 577 23</u>	<u>537 076 05</u>
Fund Balance, June 30	<u>715 087 95</u>	<u>35 185 40</u>	<u>750 273 35</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HEATH  
Allegan County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 213 197 30

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(13 309 00)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>199 888 30</u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HEATH  
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Heath, Allegan County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Heath. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF HEATH  
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Agency Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Permanent Fund

The Cemetery Perpetual Care Fund is reserved for cemetery care.

Joint Venture

The Township is a member of the Hamilton Fire Department. The Township appoints two members to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Fire Department in Hamilton, Michigan.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 5.3483 mills, and the taxable value was \$84,455,872.00.

TOWNSHIP OF HEATH  
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	30-50 years
Furniture and equipment	5-30 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2003, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$1,071,705.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF HEATH  
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>684,850.92</u>



TOWNSHIP OF HEATH  
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**Note 3 – Deposits and Investments** (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>578 428 49</u>
Total Deposits	<u>678 428 49</u>

The Township of Heath did not have any investments as of June 30, 2004.

**Note 4 – Capital Assets**

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 7/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/04</u>
Land	600 000 00	-	-	600 000 00
Buildings	546 018 00	-	-	546 018 00
Equipment	<u>65 156 00</u>	<u>-</u>	<u>-</u>	<u>65 156 00</u>
Total	1 211 174 00	-	-	1 211 174 00
Accumulated Depreciation	<u>(126 160 00)</u>	<u>(13 309 00)</u>	<u>-</u>	<u>(139 469 00)</u>
Net Capital Assets	<u>1 085 014 00</u>	<u>(13 309 00)</u>	<u>-</u>	<u>1 071 705 00</u>

**Note 5 – Pension Plan**

The Township does not have a pension plan.

**Note 6 – Deferred Compensation Plan**

The Township does not have a deferred compensation plan.

**Note 7 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 8 – Building Permits**

As of June 30, 2004, the Township had building permit revenues of \$38,379.00 and building permit expenses of \$38,559.00

TOWNSHIP OF HEATH  
Allegan County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>376.87</u>	Current Tax Collection	<u>376.87</u>

TOWNSHIP OF HEATH  
Allegan County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	450 000 00	450 000 00	436 239 22	(13 760 78)
Other taxes	8 600 00	8 600 00	8 982 60	382 60
Licenses and permits	45 800 00	45 800 00	39 297 50	(6 502 50)
State revenue sharing	231 000 00	231 000 00	222 226 15	(8 773 85)
Charges for services:				
Planning	2 000 00	2 000 00	4 800 00	2 800 00
Property tax administration	29 000 00	29 000 00	33 406 77	4 406 77
Cemetery lot sales	2 300 00	2 300 00	4 000 00	1 700 00
Recreation	40 000 00	40 000 00	102 562 44	62 562 44
Interest	4 000 00	4 000 00	3 816 63	(183 37)
Special assessments	1 100 00	1 100 00	1 200 13	100 13
Miscellaneous	11 150 00	11 150 00	6 924 74	(4 225 26)
Total revenues	<u>824 950 00</u>	<u>824 950 00</u>	<u>863 456 18</u>	<u>38 506 18</u>
Expenditures:				
Legislative:				
Township Board	98 280 00	103 280 00	93 851 49	(9 428 51)
General government:				
Supervisor	14 270 00	14 270 00	13 415 05	(854 95)
Elections	6 900 00	6 900 00	105 53	(6 794 47)
Assessor	7 350 00	7 350 00	7 240 84	(109 16)
Clerk	14 950 00	14 950 00	13 728 78	(1 221 22)
Board of Review	1 400 00	1 400 00	900 00	(500 00)
Treasurer	13 250 00	13 250 00	12 942 48	(307 52)
Building and grounds	55 350 00	65 350 00	64 991 85	(358 15)
Cemetery	18 480 00	18 480 00	16 701 02	(1 778 98)
Public safety:				
Fire protection	154 809 00	166 809 00	165 897 77	(911 23)
Planning Commission	8 650 00	8 650 00	8 552 50	(97 50)
Board of Appeals	1 000 00	1 000 00	650 00	(350 00)
Zoning Administrator	7 555 00	7 555 00	7 217 56	(337 44)
Public works:				
Highways and streets	181 500 00	181 600 00	169 155 52	(12 444 48)
Culture and recreation:				
Parks and recreation	85 150 00	85 150 00	69 518 45	(15 631 55)
Other:				
Payroll taxes	5 700 00	6 000 00	5 998 21	(1 79)
Total expenditures	<u>674 594 00</u>	<u>701 994 00</u>	<u>650 867 05</u>	<u>(51 126 95)</u>
Excess of revenues over expenditures	150 356 00	122 956 00	212 589 13	89 633 13
Fund balance, July 1	<u>482 728 61</u>	<u>482 728 61</u>	<u>502 498 82</u>	<u>19 770 21</u>
Fund Balance, June 30	<u>633 084 61</u>	<u>605 684 61</u>	<u>715 087 95</u>	<u>109 403 34</u>

TOWNSHIP OF HEATH  
Allegan County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended June 30, 2004

Township Board:	
Salaries	5 500 00
Supplies	2 225 98
Legal fees	13 405 44
Telephone	121 08
Transportation	116 64
Printing and publishing	2 884 16
Insurance	5 929 00
Audit	2 000 00
Contracted services	20 112 83
Professional services	38 559 00
Memberships and dues	2 173 04
Miscellaneous	824 32
	<u>93 851 49</u>
Supervisor:	
Salary	13 200 00
Supplies	63 57
Transportation	151 48
	<u>13 415 05</u>
Elections:	
Supplies	105 53
Assessor:	
Salary	6 499 92
Miscellaneous	740 92
	<u>7 240 84</u>
Clerk:	
Salary	12 600 00
Miscellaneous	1 128 78
	<u>13 728 78</u>
Board of Review:	
Salaries	900 00
Treasurer:	
Salary	12 600 00
Miscellaneous	342 48
	<u>12 942 48</u>
Building and grounds:	
Supplies	128 78
Telephone	1 395 58
Utilities	1 798 12
Repairs and maintenance	45 182 06
Miscellaneous	950 38
Contracted services	15 536 93
	<u>64 991 85</u>
Cemetery:	
Salaries	3 194 00
Supplies	3 108 73
Repairs and maintenance	10 398 29
	<u>16 701 02</u>
Fire protection:	
Contracted services	165 897 77

TOWNSHIP OF HEATH  
Allegan County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended June 30, 2004

Planning Commission:	
Salaries	5 025 00
Memberships and dues	600 00
Printing and publishing	2 734 98
Miscellaneous	192 52
	<u>8 552 50</u>
Board of Appeals:	
Salaries	650 00
	<u>650 00</u>
Zoning Administrator:	
Salary	8 825 00
Telephone	323 81
Transportation	68 75
	<u>7 217 56</u>
Highways and streets:	
Utilities	11 189 71
Repairs and maintenance	157 965 81
	<u>169 155 52</u>
Parks and recreation:	
Salaries	15 300 10
Supplies	48 945 92
Utilities	1 098 31
Repairs and maintenance	2 093 10
Miscellaneous	2 081 02
	<u>69 518 45</u>
Payroll taxes	5 998 21
	<u>5 998 21</u>
Total Expenditures	<u>650 867 05</u>

TOWNSHIP OF HEATH  
Allegan County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended June 30, 2004

	<u>Balance</u> <u>7/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/04</u>
<u>Assets</u>				
Cash in Bank	<u>617 17</u>	<u>2 695 510 88</u>	<u>2 695 751 18</u>	<u>376 87</u>
<u>Liabilities</u>				
Due to other funds	617 17	437 457 78	437 698 08	376 87
Due to others	<u>-</u>	<u>2 258 053 10</u>	<u>2 258 053 10</u>	<u>-</u>
Total Liabilities	<u>617 17</u>	<u>2 695 510 88</u>	<u>2 695 751 18</u>	<u>376 87</u>

# CAMPBELL, KUSTERER & CO., P.C.

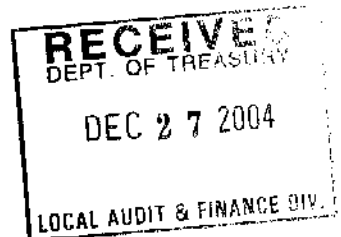
CERTIFIED PUBLIC ACCOUNTANTS

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



November 27, 2004

To the Township Board  
Township of Heath  
Allegan County, Michigan

We have audited the financial statements of the Township of Heath for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Heath in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Heath  
Allegan County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Township of Heath began with the year ended June 30, 2004. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2004.



To the Township Board  
Township of Heath  
Allegan County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Campbell, Kusterer & Co., P.C.", written in a cursive style.

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants